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SUBJECT: SWAZILAND ECONOMIC REACTION TO THE GLOBAL FINANCIAL CRISIS

¶1. SUMMARY. Swaziland, thus far, has been insulated from the global banking crisis. Other parts of the economy, however, such as the textile industry, are beginning to feel the effects of the international recession. END OF SUMMARY.

#### BANKING AND CURRENCY EXCHANGE

¶2. Local companies attribute the banking insulation to the Central Bank of Swaziland's (CBS) strict adoption of some of the Basel Guidelines in regulating financial institutions' credit risk. Swaziland's banking industry is closely linked to South African banks. Three of the country's five banks are subsidiaries of South African banks, one is owned by the Swaziland Government, and one is privately owned. The Swazi Lilangeni currency is at par with the rand, and some companies are affected by the rand's depreciation against the dollar and other international currencies.

#### TEXTILE AND APPAREL COMPANIES

¶3. On October 8, a local newspaper reported that Swaziland Textile Exporters Association Chairman John Neng Fan said that, due to the global financial crisis, the number of orders from the U.S. has dropped, negating the usual benefit the industry enjoys when the lilangeni depreciates against the dollar. Swaziland exports ninety percent of its garments to the U.S. under the African Growth and Opportunity Act.

¶4. The textile industry is a major employer in Swaziland, which has a 40 percent unemployment rate. The industry employs approximately 17,000 persons at salaries slightly above minimum wage, mainly women who are the sole source of income for their families.

#### THE MANUFACTURING SECTOR

¶5. At present, the Swaziland Sugar Association (SSA), which exports sugar, and Swazican, which produces canned fruit, juices and jams for export, primarily to South Africa, the European Union and U.S., have not been negatively impacted by the global financial crisis. SSA CEO Dr. Mike Matsebula attributed this to the Central Bank's strong regulation. The Swazican Managing Director said the weak rand worked to their advantage as exporters, but they are also importers, and that is when they feel the crunch. He also said the company has not been directly affected, but implied concern about.

#### INFLATION

¶6. The Central Bank is monitoring the situation, but is worried about the effects of escalating inflation on consumers and the country's overall economic growth. "The rising inflation complicates risk assessments and can further compromise capital inflows," the Bank said. Swaziland's inflation rate for August 2008 was 14.71 percent, according to the IMF, but the Central Bank left its discount rate unchanged at 11.5 percent.

¶7. Stofeni Ginindza, Managing Director of African Alliance, an investment banking company, stated he was worried that private equity funds from international banks could be recalled.

#### TRANSPORTATION

¶8. Although the increase in fuel prices hit the transportation (road and rail) industry very hard, the prevailing global financial

crisis has not directly impacted Swaziland's transportation industry. There is fear, however, that the textile industry's loss of orders will have a spill-over effect into the transportation industry.

PARKER